B.C. Hydro

Annual Report 1986/87

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1. British Columbia Hydro and Power Authority

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Highlights

for the years ended March 31

	1987	1986	1985
Financial		*(in millions)*	
Revenues	**$1,987**	$ 2,094	$ 1,953
Net income (loss)	**$ 25**	$ 9	$ (15)
Net additions to fixed assets in service	**$ 252**	$ 518	$ 2,185
Total assets	**$9,802**	$10,457	$10,567
Long-term debt	**$7,472**	$ 8,209	$ 8,387
Operating			
Electricity sold (kW·h in millions)			
Domestic	**34 417**	32 857	31 502
Export	**4 665**	9 407	6 378
Gas sold (terajoules)	**92 478**	98 247	99 635
Freight carried (tonnes in thousands)	**1 712**	1 977	1 837
Average electric revenue per kW·h			
Domestic (in cents)	**4.2**	4.2	4.2
Export (in cents)	**2.0**	2.7	2.9
Average gas revenue per gigajoule (in dollars)	**4.14**	4.29	4.14

Business of B.C. Hydro

British Columbia Hydro and Power Authority, a provincial Crown corporation, is the third largest electric utility in Canada and the largest distributor of natural gas in British Columbia. Its Board of Directors, appointed by the Lieutenant-Governor in Council, is responsible for the management of the corporation.

B.C. Hydro generates, transmits and distributes electricity to nearly 1.2 million customers in a service area which contains more than 90% of British Columbia's population. Most of the electricity is generated by hydroelectric plants which are linked to customers by an interconnected system of transmission lines. Remote communities not connected to this integrated system are served by small local generating plants.

B.C. Hydro distributes natural gas in Greater Vancouver and the Fraser Valley and manufactures and distributes propane-air gas in Greater Victoria.

B.C. Hydro also operates a railway offering local and terminal freight service in the Fraser Valley and to locations in Burnaby and New Westminster.

B.C. Hydro's electric and gas services are subject to regulation by the British Columbia Utilities Commission.

Report of the Directors

On behalf of the Board of Directors of B.C. Hydro I am pleased to report continuing positive performance by the management and employees of the corporation in the discharge of its service mandate during fiscal 1987. The year ended March 31, 1987 recorded income of $67 million. After extraordinary items, net income stood at $25 million, compared to $9 million the previous year. These gratifying results were achieved while maintaining a rate structure which provides electric service to residential and industrial customers at rates among the lowest in the world.

Challenged by an improving domestic economy, the strengthening Canadian dollar and volatile export markets and prices, B.C. Hydro aggressively pursued revenue and expenditure programs designed to achieve the most efficient delivery of energy to its customers in the near term while, at the same time, undertaking initiatives intended to sustain lowest cost service over the long term.

To amplify on the revenues reported in the accompanying financial statements, I would note:

- domestic electric sales for fiscal 1987 set a new record at $1,485 million, up $93 million over the previous year, reflecting both general improvement in the provincial economy and rates designed to encourage and stimulate economic activity. This increase resulted mainly from increased consumption by industrial and commercial rate customers.

- electric export sales of $93 million were down substantially from the $252 million recorded in fiscal 1986. During the early part of the year, low oil and gas prices available for thermal generation in our United States market area combined with surplus energy in the pacific northwest to depress electric export prices below National Energy Board floor prices. B.C. Hydro's management decided to remain out of the low price market and to use the occasion to conserve energy reserves and replenish the storage in its reservoirs. This plan was accomplished without spilling of water and enabled the corporation to re-enter the market when the pacific northwest energy surplus decreased and prices firmed in the last three months of fiscal 1987.

- sales of gas totalled $385 million, down $38 million from the previous year. This decrease is a direct result of mild temperatures, reducing heating requirements below normal, as well as the effect of decreases in rates responding to market-oriented price reductions in the cost of gas purchased for resale.

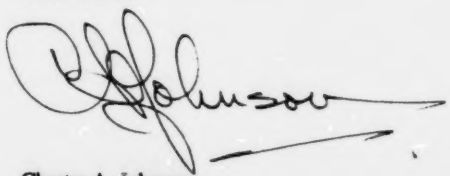
In recognition of the impact which expenditure programs have on the fiscal performance of the corporation, management continued programs of expenditure control and reduction. Negotiations with all the major B.C. Hydro unions resulted in new three-year collective agreements expiring March 31, 1989 with wage adjustments which compare favourably with those experienced in the private sector. During the year ended March 31, 1987 employee compensation was reduced by $18 million or 8% from the previous year.

During fiscal 1987 major financial management initiatives were successfully undertaken which reduced B.C. Hydro's finance charges $42 million below plan. This result was achieved through the application of refinancing programs, interest rate swaps, forward foreign exchange contracts and the strengthening of the Canadian dollar.

These expenditure control programs, consistently pursued as a matter of corporate policy, had immediate beneficial results in 1987 and, with particular emphasis being placed on the reduction of B.C. Hydro's debt and related finance charges, will continue to produce benefits in the future.

While assiduously addressing current operating responsibilities, the management of B.C. Hydro has remained aware of the need to provide for increasing energy demands of its customers and the expenditure burdens flowing therefrom. Recognizing the opportunities which B.C. Hydro's strategic position in the export market have for future energy needs, the corporation with the support of the Government of British Columbia undertook the first major step towards meeting future energy supply by utilizing the potential for firm export sales. Under this initiative a six-month joint study by B.C. Hydro and ten major electric utility interests in Washington, Oregon and California was undertaken to assess the potential of Site C on the Peace River. These studies confirmed the existence by the mid-1990's of a firm electricity export market for the output of the proposed 900 megawatt generating station and the feasibility of undertaking the project to realize upon that market opportunity. Achievement of this objective can serve to consolidate British Columbia's market opportunity for electric sales to the pacific coast states and resolve the transmission difficulties which have heretofore impeded B.C. Hydro's access to those markets. Contract negotiations are being pursued with the anticipation that firm contracts conditional upon regulatory approval and transmission access will facilitate early commencement of the project and defray the cost of future generating capacity required for domestic purposes.

As I complete my term of office as Chairman of B.C. Hydro effective May 31, 1987, I would like to express my appreciation to all our employees for their dedication and hard work. I also extend my best wishes to Mr. Larry I. Bell as the new Chairman of B.C. Hydro. I am certain that the management and employees of B.C. Hydro will join with him in maintaining B.C. Hydro in the forefront of the utility industry, sustaining the corporation's technical and managerial competence and organizational effectiveness.



Chester A. Johnson
Chairman and Chief Executive Officer
May 29, 1987

Electricity

OPERATIONS

Despite a milder than normal winter, total domestic electric sales volumes set a new record of 34 417 million kW·h, an increase of 5% over the previous year. The export sales volume was 4665 million kW·h, down by 50% compared to 9407 million kW·h in the previous year. This decrease reflects the lower oil and gas prices available in the United States, limited access to transmission lines to the California market and low export sales prices.

The number of electric customers has increased by 21 301 to close the year at a total of 1 184 266.

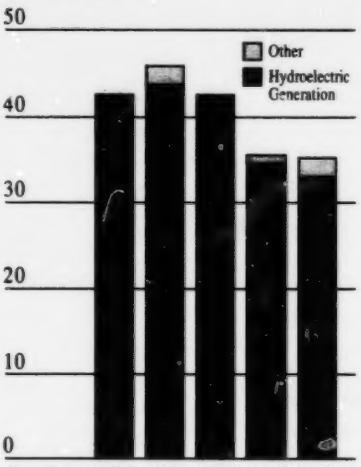
INCENTIVES TO INDUSTRIAL CUSTOMERS

Various incentive rates that had been made available through B.C. Hydro to industrial customers in the previous year continued in fiscal 1987 in order to encourage the use of surplus electricity and stimulate economic growth.

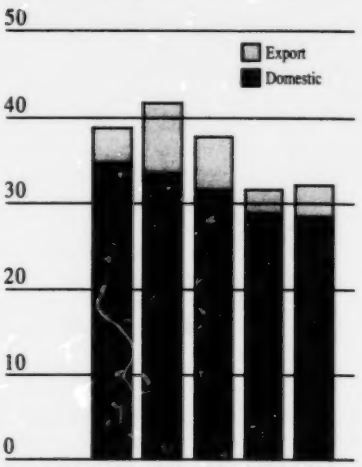
The Turbine Turndown electricity rate encouraged industrial customers to displace oil, used for the on-site generation of electricity, with purchased electricity. Sales of 639 million kW·h and revenues of $6.8 million resulted from this program.

The Industrial Electricity Rate Discount Act and Critical Industries Act continued to promote economic renewal and restore and enhance the competitiveness of British Columbian business enterprises. Sales under the Industrial Electricity Rate Discount Act were 338 million kW·h which produced revenues of $6.8 million. The Critical Industries Act produced sales of 591 million kW·h and revenues of $10.5 million.

Sources of Electricity Supply
(kW·h in billions)



Sales of Electricity
(kW·h in billions)



Total Requirements for Electricity and Sources of Supply

	1987 kW·h in millions	% of Total	1986 kW·h in millions	% of Total
Requirements				
Domestic	34 417	80.8	32 857	70.4
Export	4 665	10.9	9 407	20.2
Line loss and system use	3 553	8.3	4 396	9.4
	42 635	100.0	46 660	100.0
Sources of supply				
Hydroelectric generation				
Gordon M. Shrum	11 415	26.8	15 436	33.1
Revelstoke	8 195	19.2	6 584	14.1
Mica	7 871	18.5	5 853	12.5
Kootenay Canal	3 260	7.6	2 939	6.3
Peace Canyon	2 858	6.7	3 860	8.3
Seven Mile	2 579	6.0	3 015	6.5
Bridge River	2 111	5.0	2 546	5.5
Other	4 592	10.8	4 272	9.1
Thermal generation				
Burrard	1	—	—	—
Other	154	0.3	153	0.3
Purchases and other transactions	(401)	(0.9)	2 002	4.3
	42 635	100.0	46 660	100.0

RATES AND REGULATIONS

In a decision dated May 9, 1986, the B.C. Utilities Commission reduced an interim electric rate increase of 3.75%, which had been in effect since June 13, 1985, to 1.875% for the period June 13, 1985 to March 31, 1986 and confirmed the full 3.75% increase effective April 1, 1986. The Commission ordered a refund, with interest, of the portion of the interim increase not upheld. Accordingly, a refund was made to all customers in the current fiscal year.

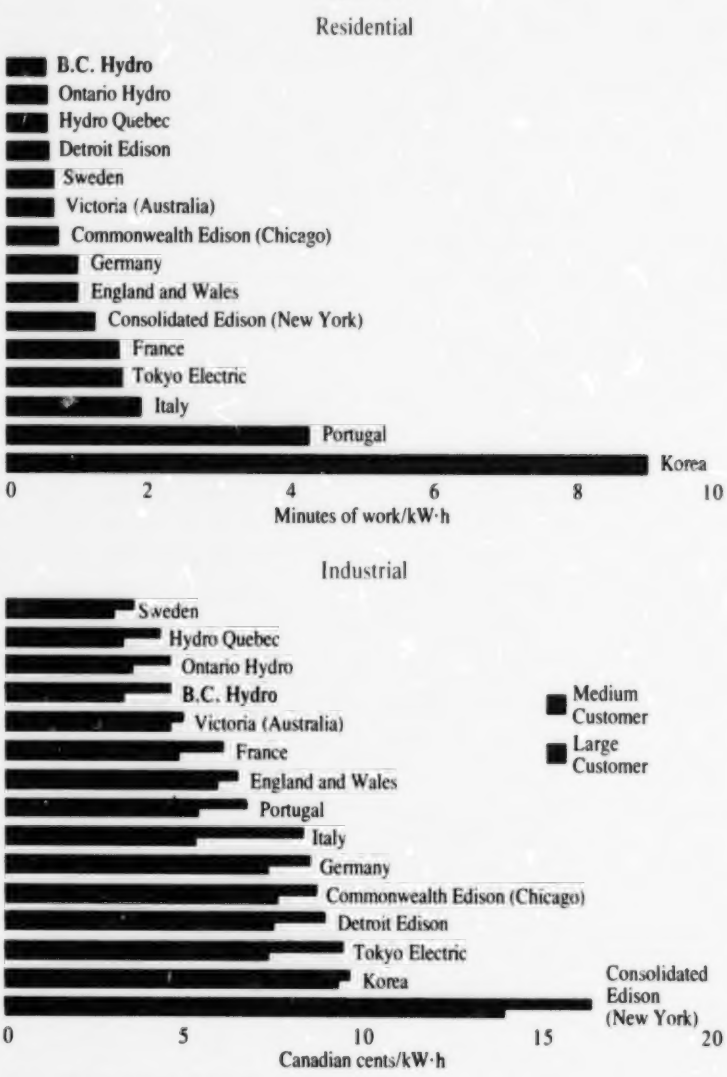
As a consequence of keeping electric rate increases to a minimum, B.C. Hydro's customers enjoy some of

the best electric rates in the world as the following shows:

Monthly Residential Rates 1 000 kW·h	
New York	$208
Chicago	199
Boston	140
Detroit	126
St. Louis	123
Washington, D.C.	119
Tampa	116
Little Rock	114
Los Angeles	109
Dallas	102
Atlanta	100
Birmingham	98
Louisville	97
Charlottetown	90
Tennessee Valley Authority	72
Halifax	72
St. John's	70
Portland, Oregon	67
Fredericton	65
Ontario — Rural	63
Ontario — Municipal Electric Utility Average	55
Vancouver	53
Calgary	51
Regina	51
Montreal	42
Winnipeg	39

Source: Ontario Hydro

Average Electricity Rates
(August 1984)



Source: Canadian Electrical Association

CAPITAL PROGRAM

There were no major changes to the generating capacity during the year. The position at March 31, 1987 was as follows:

	Generating nameplate capacity (kW in thousands)
Hydroelectric plants	
Gordon M. Shrum	2 416
Revelstoke	1 843
Mica	1 736
Peace Canyon	700
Seven Mile	608
Kootenay Canal	529
Bridge River	428
Other	1 072
Total hydroelectric	9 332
Thermal plants	
Burrard	912
Gas turbine (2 plants)	146
Diesel	91
Total thermal	1 149
Total generating capacity	10 481

The second circuit of the Cheekye-Dunsmuir transmission line, connecting the mainland of British Columbia to Vancouver Island, was finished with the completion of the overhead portion between Cheekye and Malaspina, both on the mainland. This connection is in place to increase the transmission capacity and ensure the reliability of the electricity supply to Vancouver Island.

Work was completed on the Pike Lake Switching Substation, the Keating Substation and the 230 kV transmission line connecting them. Material and construction savings of over $1 million were realized from the use of innovative design concepts which resulted in a reduction to substation space requirements. This faciiity has been placed in service in order to meet continuing growth in the southern Vancouver Island service area.

Two of the generating units at Burrard Thermal generating station were converted to synchronous condenser operation in order to provide improved voltage control for system security. In addition, the plant rehabilitation program, started in the fall of 1983, is proceeding and is now 60% complete.

In June 1986, the Environmental Appeal Board confirmed the emission permit issued for Burrard Thermal generating station. The plant is now fully permitted under the B.C. Waste Management Act. The plant will continue to serve as a back-up source of electrical energy to the predominantly hydroelectric system, however the plant is not expected to see significant operation for several years.

A net total of 474 km of overhead transmission line and distribution line was added to the electric system during the year.

A polychlorinated biphenyl (PCB)-in-oil Decontamination Plant was purchased by B.C. Hydro in 1986 initiating a four-year project to decontaminate four million litres of oil. The Decontamination Plant is based on technology developed by the Research and Development team within B.C. Hydro. In addition, a program to replace fifty-five PCB-filled network transformers in downtown Victoria was completed on schedule.

A study of the feasiblity of the Site C generating facility was coordinated by B.C. Hydro, in conjunction with the Bonneville Power Administration and nine Californian and Pacific Northwestern utilities, to provide a basis for identifying and assessing the technical elements, legal issues and economic factors of generation, transmission and marketing of Site C power in the United States. The results of the study confirmed the technical feasibility of the project, identified a market which is six times greater than Site C's annual energy producing capability, detailed the transmission facilities needed to deliver the power and identified regulatory requirements in Canada and the U.S.A.

GENERAL

Although British Columbia experienced an unusually mild winter, there were interruptions of service caused by wind and rain storms in the North Coast and Vancouver Island regions. Services were quickly restored to customers through the swift and efficient response of B.C. Hydro employees.

Energy conservation issues were again subject to study by B.C. Hydro, and several potential programs were identified which could encourage reductions in customer energy usage and so delay the need to construct new generating facilities.

Water conditions during fiscal 1987 were average with the result that most of the corporations' reservoirs were filled to capacity during the year, enabling B.C. Hydro to market surplus energy to utilities in the United States where water conditions were down.

Gas

OPERATIONS

The total gas sales volume was down 6% compared with the previous year. This decrease was due mainly to the warm weather experienced during the year, especially during the main heating season of January, February and March. The peak one-day demand occurred on January 15, 1987, when the mainland system demand totalled 569 terajoules, 13% lower than last year's record peak one-day demand which occurred on November 27, 1985. Despite a decrease in sales volumes, the total number of gas customers increased by 11 113 to close the year at 385 178.

CAPITAL PROGRAM

B.C. Hydro added 186 km of mains to the natural gas distribution system during the year compared with 130 km the previous year. A total of 8492 km of mains were in service at March 31, 1987.

RATES AND REGULATIONS

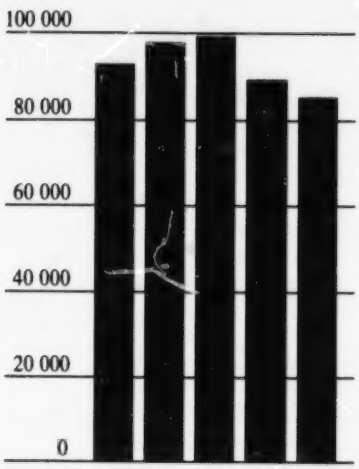
B.C. Hydro, along with other natural gas utilities, entered a market-oriented pricing environment for natural gas purchases in Canada on November 1, 1986. Significant reductions in gas costs were negotiated with producers and passed on to all customer groups. Previously, the Federal Government set both the field price to producers and the wholesale price to distributors.

Most of B.C. Hydro's major industrial customers are on one year contracts which, when they expire, free these customers to negotiate their supplies of natural gas from alternate sources. B.C. Hydro has set up both firm and interruptible transportation rates to accommodate such arrangements. B.C. Hydro's supply contract with Westcoast Transmission Company Limited does not expire until 1991 and so at this time B.C. Hydro is not able to take full advantage of the opportunities price restructuring may offer. Negotiations with Westcoast Transmission Company Limited are continuing with a view to revising this situation.

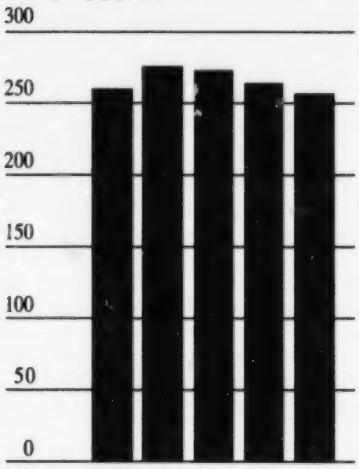
An interim increase to the gas rate of 3.6% or 14¢ per gigajoule was approved by the B.C. Utilities Commission effective November 1, 1986. It is expected that a public hearing on the increase will be held later in 1987. The interim increase is subject to refund, wtih interest, if so ordered by the Commission.

The net result of the rate reduction related to the reductions in gas purchased costs and the interim rate increase was a reduction in gas rates of 4.8% for residential and general customers and 28% for interruptible customers.

Sales of Gas
(terajoules)



Average Cost of Natural Gas Purchased for Resale
(cents per gigajoule)



MARKETING

The marketing of natural gas in all sectors was highly focused during the year. Priority was given to advising industrial customers of the impacts and options under the market-oriented pricing environment, with the objective of retaining existing load and recapturing load lost to competing fuels. Contracts were signed with two major coal burning customers which resulted in the recapture of natural gas sales estimated at 2400 terajoules over the contract period.

In the transportation sector, over 1600 vehicles were converted to natural gas bringing the total in B.C. Hydro's gas service area to over 4600. Six new fuelling stations were added, and at year-end there were 27 public and 7 private stations in operation in the Lower Mainland. Natural gas sales volumes for transportation use increased by 64% during the period.

In addition, natural gas for diesel vehicles took a major step forward with the construction of Canada's first natural gas and diesel truck fuelling station in Burnaby. This is a demonstration project undertaken by a private fuel dealer with support from the Federal Government and B.C. Hydro. A B.C. Transit bus operating on dual fuel natural gas and diesel was also placed in commercial service during the year.

The new system, Adapt-2 Gas, was introduced to B.C. Hydro's residential and commerical gas customers. This system allows for an increase in the piping capacity in homes and also permits simple retrofitting of gas appliances, which are now easier to install than with the rigid iron pipe used previously. Gas fireplaces continued to be popular with customers over the past year, with over 13 000 units being installed.

Rail Operations

The volume of freight carried for the year was 1712 tonnes, a reduction of 13% from the previous year. This reduction is attributed to the first full year of operation without the Vancouver and Lulu Island rail line, for which the operating agreement expired on December 31, 1985.

From June 24 to August 10, a passenger service was in operation between Abbotsford and New Westminster utilizing a British Rail "Railbus" as an Expo 86 demonstration. Also during the year, adjustments were made to the operating plant to accommodate the new Alex Fraser Bridge. These included track adjustments on Annacis Island and use of a new swing span bridge between Lulu Island and Annacis Island.

Labour Negotiations

New three-year collective agreements, to expire on March 31, 1989, were negotiated with all of the major B.C. Hydro unions.

The agreement with the Management and Professional Employees Society (MAPES), representing a number of supervisory, professional and confidential employees, expired November 30, 1986 and negotiations for a new agreement are now in progress.

Financial Report

B.C. Hydro is the sixth-largest industrial corporation in Canada based on assets as reported by the Financial Post 500, Summer 1987, and updated to include results for B.C. Hydro for the year ended March 31, 1987.

Regulation and Financial Objectives

Since 1980, B.C. Hydro's electric and gas services, including rates, have been regulated by the British Columbia Utilities Commission (the "Commission"), subject to any general or special direction of the Lieutenant-Governor in Council with respect to the exercise of its powers.

A special direction issued in March 1984 stated that B.C. Hydro should maintain an interest coverage ratio of 1.3:1 on the gas service and improve its interest coverage ratio for the electric service with reasonable consistency so as to achieve an interest coverage ratio of 1.3:1 by fiscal 1991. The special direction also stated that B.C. Hydro should maintain an interest coverage ratio of 1.3:1 after fiscal 1991 for the electric and gas services so as to achieve and maintain a debt/equity ratio of 80:20.

Ratios for the past five years were as follows:
As calculated under B.C. Hydro's historical method —

	Years Ended March 31				
	1987	1986	1985	1984	1983
Interest Coverage Ratio					
—Electric	**1.05:1**	.98:1	.96:1	1.05:1	1.07:1
—Gas	**1.24:1**	1.45:1	1.44:1	1.33:1	1.07:1
—Total B.C. Hydro	**1.07:1**	1.01:1	.99:1	1.06:1	1.07:1
Debt/Equity Ratio	**93:7**	94:6	94:6	93:7	93:7

As calculated under the Commission's method for regulatory purposes —

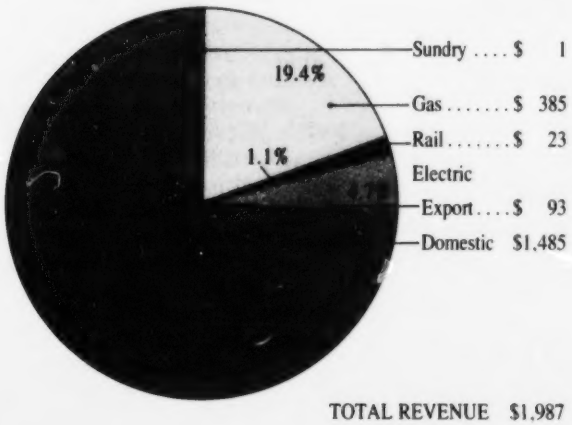
	Years Ended March 31				
	1987	1986	1985	1984	1983
Interest Coverage Ratio					
—Electric	**1.06:1**	.98:1	.96:1	1.05:1	1.09:1
—Gas	**1.28:1**	1:51:1	1.50:1	1.36:1	1.09:1
—Total B.C. Hydro	**1.07:1**	1.01:1	.98:1	1.06:1	1.08:1
Debt/Equity Ratio	**86:14**	86:14	87:13	84:16	84:16

On November 1, 1986, there was a reduction in the price of natural gas as a result of changes made to the tolls of the Westcoast Transmission Company Limited as ordered by the National Energy Board and new agreements negotiated with the natural gas producers. Concurrently, a 3.6% interim gas rate increase was implemented to compensate B.C. Hydro for increases in other expenses. The net result was a reduction in gas rates, on average, of 4.8% for residential and general customers and 28% for interruptible customers. These rate changes were approved on an interim basis by the Commission and are subject to refund, with interest, if so ordered by the Commission.

In a decision dated May 9, 1986, the Commission reduced an interim electric rate increase of 3.75%, which had been in effect since June 13, 1985, to 1.875% for the period June 13, 1985 through March 31, 1986 and confirmed the full 3.75% increase effective April 1, 1986. A refund, with interest, was recorded by B.C. Hydro in fiscal 1986 and made to all customers in fiscal 1987 for the portion of the 3.75% interim rate increase which was not confirmed.

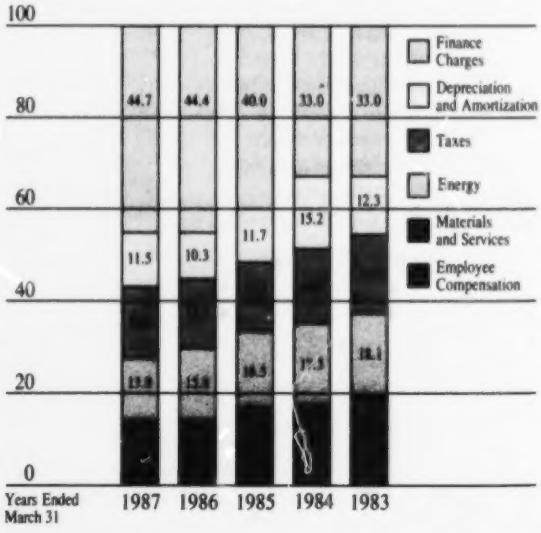
In accordance with orders issued by the Commission, B.C. Hydro's income is subject to rate stabilization. Under the original order, B.C. Hydro was to transfer the net revenues from export sales of surplus electric energy (exclusive of sales under certain export contracts) to a rate stabilization

Sources of Revenue *(millions)*
for the year ended March 31, 1987



TOTAL REVENUE $1,987

Distribution of Operating Expenses
(percent)



account and to transfer $60 million per annum to income from the rate stabilization account. A subsequent order was issued by the Commission which permitted B.C. Hydro to include in income for fiscal 1986, the first $130 million of export sales, less direct expenses, in addition to the annual transfer of $60 million.

For fiscal 1987 and subsequent years, the Commission has directed that all net revenues from export sales be transferred to the rate stabilization account. Transfers from the account for the year were determined in accordance with the directions of the Commission and totalled $163 million leaving a nil balance in the account at March 31, 1987.

Results of Operations

B.C. Hydro's income before extraordinary items, for the year ended March 31, 1987 was $67 million compared to $9 million for the previous year. As a result of continued deferment of the commencement of the Vancouver Island gas pipeline project, the aging of information, and uncertainty as to B.C. Hydro's role, the $29 million book value of the project expenditures has been charged off as an extraordinary item in the current year. In addition, because of uncertainty in the developability as a B.C. Hydro head office building of property purchased for that purpose in 1982, 1983 and 1984, the investment has been written down by $13 million to current appraised value. After extraordinary items, net income was $25 million for the year.

Total revenues for fiscal 1987 were $1,987 million compared to $2,094 million in the previous year, the decrease being attributable to reduced electric export sales and reduced gas revenues.

Electric domestic revenues increased mainly as a result of consumption growth of 5% and a 1.875% increase in rate. Electric export sales were $93 million compared to $252 million last year, the decrease being due mainly to limited access to available markets in the United States in the early part of the year and low world gas and oil prices.

Gas revenues decreased by $38 million or 9% from the previous year due mainly to the warmer winter heating season and lower rates related to reductions in B.C. Hydro's cost of gas purchased for resale.

Total operating expenses, excluding finance charges, decreased by $34 million or 3% compared to the previous year. This was mainly due to reductions in energy costs and employee compensation which more than offset higher depreciation charges.

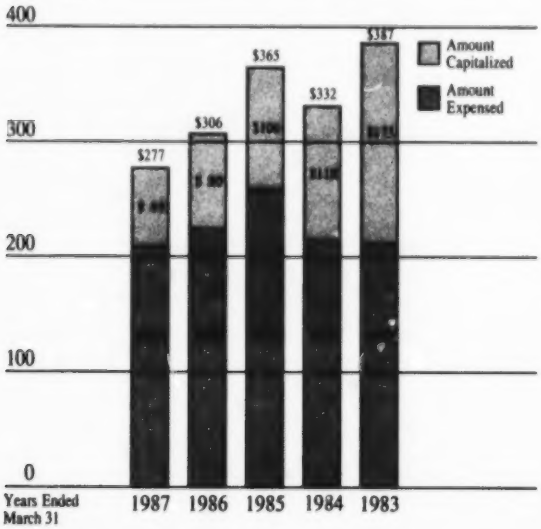
Total energy costs decreased by $48 million or 15% from fiscal 1986. The decrease was mainly due to a reduction in gas purchased for resale, which decreased $29 million compared to the previous year. This reduction was due in part to a decrease in the volume of gas sold, as a result of the mild winter heating season, and in part to gas price reductions resulting from the market-oriented pricing approach of the natural gas industry.

Employee compensation for the year totalled $208 million, a decrease of $18 million or 8% from previous year, reflecting the effects of staff reductions and reduced costs of employee benefits.

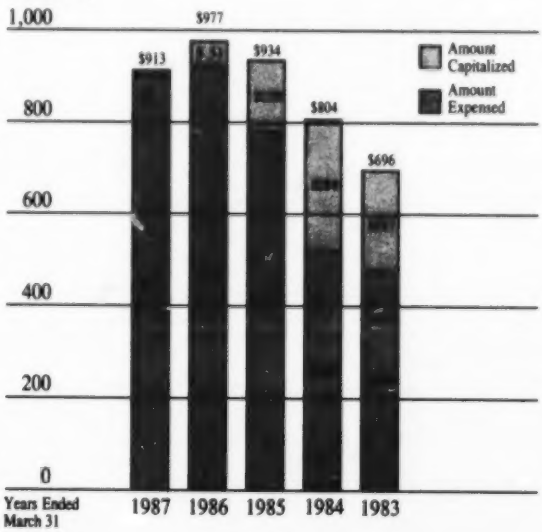
Depreciation and amortization increased by $20 million as a result of additional assets having been placed in service, accelerated depreciation on certain gas service assets and the write-off of miscellaneous project studies.

Total finance charges were $20 million lower than in the prior year in spite of $44 million additional interest related to financing new assets in service. Innovative refinancing programs, interest rate swaps, forward foreign exchange contracts and the increased value of the Canadian dollar resulted in reductions in finance charges of $64 million.

Employee Compensation
($ millions)



Finance Charges
($ millions)



Electric Service

	Years ended March 31 1987	1986	Increase (decrease)
	(in millions)		%
Revenues — Domestic	$1,485	$1,392	7
— Export	93	252	(63)
	1,578	1,644	(4)
Operating expenses	781	791	(1)
Finance charges	853	872	(2)
	1,634	1,663	(2)
Operating loss	(56)	(19)	195
Transfer to rate stabilization account	(56)	(85)	(34)
Transfer from rate stabilization account	163	81	101
Income (loss) before extraordinary items	$ 51	$ (23)	
Electricity sold (kW·h in millions) — Domestic	34 417	32 857	5
— Export	4 665	9 407	(50)

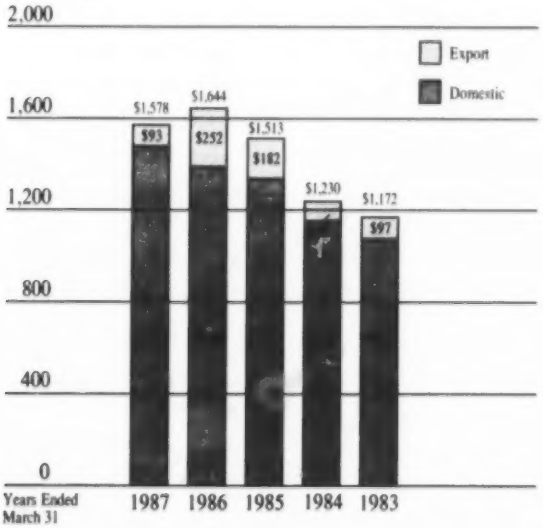
Income before extraordinary items for the electric service was $51 million for the year ended March 31, 1987 compared with a loss of $23 million in the previous year.

Total domestic electric revenues were $1,485 million for an increase of $93 million or 7% over last year. This was the result of a 1.875% rate increase and a higher volume of electricity sales to all customer categories. The increase in kilowatt hour sales to transmission customers of 8% and to general customers of 3% is a reflection of the increased economic activity and the various incentive rates offered by B.C. Hydro and the Provincial Government. Increased volumes were particularly noticeable in the metal mining and pulp and paper industries.

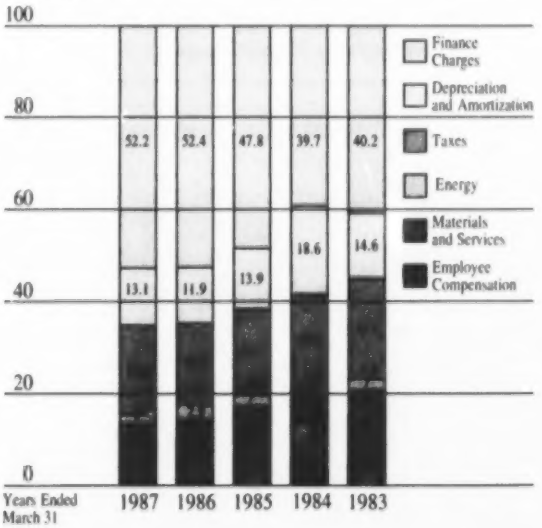
Export sales were $93 million compared to $252 million last year the decrease being due mainly to the limited access that B.C. Hydro had to available markets in the United States and to low world gas and oil prices.

Total operating expenses, including finance charges, for the electric service decreased $29 million over the previous year. This decrease was mainly the result of reductions in finance costs arising from the restructuring of B.C. Hydro's debt and the strengthening in value of the Canadian dollar compared to the U.S. dollar.

Electric — Sources of Revenue
($ millions)



Electric — Distribution of Operating Expenses
(percent)



Gas Service

	Years ended March 31 1987	1986	Increase (decrease)
	(in millions)		%
Revenues	$385	$423	(9)
Energy (Gas purchased)	251	280	(10)
Gross margin	134	143	(6)
Operating expenses	71	67	6
Finance charges	49	50	(2)
Income before extraordinary items	$ 14	$ 26	(46)
Gas sold (terajoules)	92 478	98 247	(6)

Income before extraordinary items was $14 million, a decrease of $12 million from the previous year. This decrease reflects lower sales volumes resulting from the warmer winter heating season and lower rates.

The market-oriented pricing approach of the natural gas industry resulted in lower gas purchased costs and concurrent decreases in customer rates. The average revenue per gigajoule of gas sold in fiscal 1987 was $4.14, a decrease of 4% from that of the previous year.

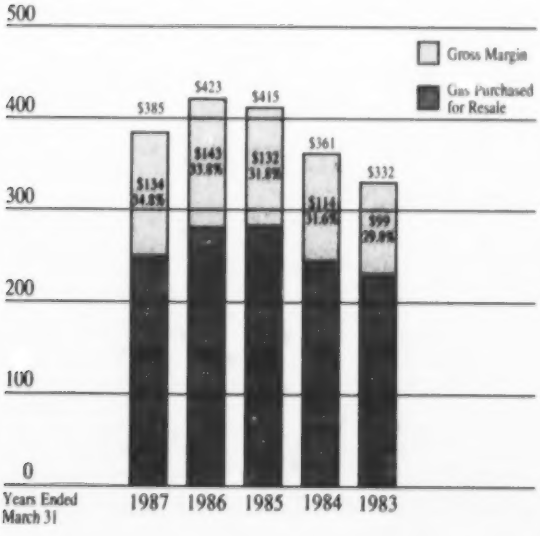
Rail Service

	Years ended March 31 1987	1986	Increase (decrease)
	(in millions)		%
Revenues	$23	$24	(4)
Operating expenses	18	17	6
Finance charges	3	2	50
Income before extraordinary items	$ 2	$ 5	(60)
Freight carried (thousands of tonnes)	1 712	1 977	(13)

Income before extraordinary items for the rail service was $2 million compared to $5 million in the previous year. Reduced freight earnings reflect the 13% reduction in freight carried which resulted mainly from the return of operations of the Vancouver and Lulu Island line to CP Rail.

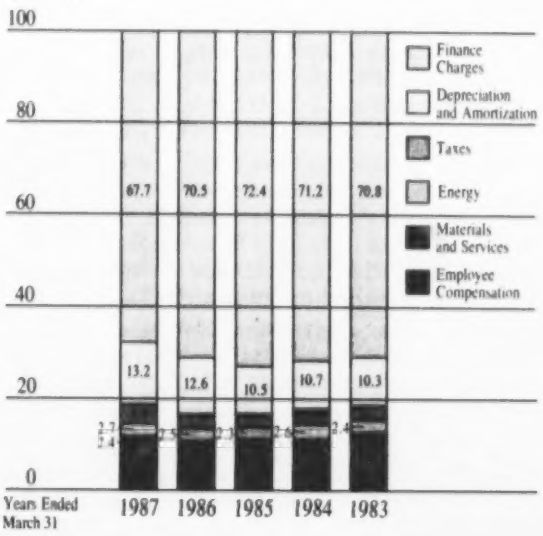
Gas Sales

($ millions)



Gas — Distribution of Operating Expenses

(percent)



Capital Expenditures

Capital expenditures for the year ended March 31, 1987 totalled $187 million. The following table is a summary of actual capital expenditures for the fiscal years 1983 through 1987. The majority of the fiscal 1987 expenditures related to the improvement and expansion of the electric and gas distribution systems.

	Total Fixed Asset Expenditures Years Ended March 31				
	1987	1986	1985	1984	1983
	(in millions)				
ELECTRIC					
Generation	$ 32	$ 15	$139	$401	$ 502
Transmission	12	54	175	250	260
Transformation	11	29	35	61	119
Distribution	86	71	75	59	85
Other	15	25	18	10	31
Total electric	156	194	442	781	997
GAS	29	28	40	33	37
RAIL	1	1	1	5	1
SUNDRY	1	1	1	1	2
TOTAL	**$187**	$224	$484	$820	$1,037

Financing

During the year, B.C. Hydro undertook a program to reduce finance charges through the application of refinancing programs, interest rate swaps and forward foreign exchange contracts. The U.S. $100 million Series FE, 16.25% Notes due in October 1988 was called and refinanced with a ten year floating rate issue bearing an initial interest rate of 5.96% and achieved finance charge reductions in excess of $10 million in fiscal 1987 alone.

Long-term borrowings in fiscal 1987 totalled $114 million payable in Canadian currency at an average coupon rate of 8.98% and $186 million payable in U.S. currency at an average coupon rate of 6.25%. At March 31, 1987, B.C. Hydro also had $116 million of short-term loans outstanding.

Many long-term borrowings have sinking fund provisions to ensure that funds are available at maturity to repay a significant portion of the debt. As at March 31, 1987 the sinking fund balance totalled $1,176 million. Sinking fund instalments paid and the re-investment of sinking fund income amounted to $261 million during the year.

B.C. Hydro's outstanding long-term debt totalled $9,081 million from which should be deducted $1,176 million in sinking fund assets for a net long-term debt balance of $7,905 million at March 31, 1987. This compares with $8,490 million at March 31, 1986. The average coupon rate on long-term debt outstanding at March 31, 1987 was 10.63%.

The credit rating on B.C. Hydro's bonds from the two major financial rating agencies in the United States, Moody's Investors Service and Standard & Poor's Corporation, remained unchanged during the year at Aa1 and AA respectively.

Operating Statistics

years ended March 31

	1987
Electric Service	
Generating nameplate capacity at year-end (rated kW in thousands)*	
Hydroelectric	9 332
Thermal	1 149
Total	10 481
Peak one-hour demand integrated system (kW in thousands)	6 345
Customers at year-end	
Residential	1 041 784
General	139 936
Transmission	81
Other**	2 445
Export	20
Total electric customers	1 184 266
Electricity sold (kW·h in millions)	
Residential	9 779
General	11 137
Transmission	12 582
Other**	919
Domestic	34 417
Export	4 665
Total electricity sold	39 082
Increase (decrease) over previous year (%)	(7.5)
Electric revenues (dollars in millions)	
Residential	$ 539
General	524
Transmission	348
Other**	46
Rents and miscellaneous	28
Domestic	1,485
Export	93
Total electric revenues	$1,578
Average revenue per kW·h (cents)	
Residential	5.5
General	4.7
Transmission	2.8
Other**	5.1
Export	2.0
Average annual kW·h use per residential customer	9 472
Lines in service	
Distribution (kilometres)	47 148
Transmission (circuit kilometres)	17 056
Gas Service	
One-day capacity at year-end + (terajoules)	
Mainland — firm pipeline contracts	404
— plant	164
— underground storage	66
Greater Victoria — plant	6
Peak one-day demand (terajoules)	
Mainland system — including interruptible	569
— excluding interruptible	488
Greater Victoria system	2
Customers at year-end	
Residential	344 315
General	40 759
Interruptible	104
Total gas customers	385 178
Gas sold (terajoules)	
Residential	37 597
General	35 393
Interruptible	19 488
Total gas sold	92 478
Increase (decrease) over previous year (%)	(5.9)
Gas revenues (dollars in millions)	
Residential	$177
General	153
Interruptible	53
Rents and miscellaneous	2
Total gas revenues	$385
Average revenue per gigajoule (in dollars)	4.14
Rail Service	
Freight carried (tonnes in thousands)	1 712

1986	1985	1984	1983	1982	1981	1980	1979	1978	1977
9 332	9 332	7 489	7 491	7 491	7 491	6 588	5 883	5 883	5 449
1 151	1 171	1 271	1 341	1 347	1 346	1 360	1 363	1 293	1 301
10 483	10 503	8 760	8 832	8 838	8 837	7 948	7 246	7 176	6 750
6 816	6 193	6 215	5 508	5 902	5 475	5 198	5 091	4 621	4 258
1 023 468	1 005 533	987 659	967 754	943 587	915 270	882 923	858 397	829 266	797 588
137 051	134 018	133 652	132 383	130 818	128 163	124 754	123 124	121 407	117 580
72	67	70	65	62	59	55	52	48	47
2 353	2 265	2 336	2 227	2 433	2 636	2 166	2 487	1 730	1 650
21	22	16	13	14	10	14	16	13	12
1 162 965	1 141 905	1 123 733	1 102 442	1 076 914	1 046 138	1 009 912	984 076	952 464	916 877
9 649	9 667	9 067	8 790	8 755	8 104	7 611	7 407	7 040	6 664
10 770	10 285	9 957	9 736	9 727	9 377	8 925	8 596	8 137	7 675
11 681	10 957	9 240	9 040	9 305	9 612	9 229	9 147	8 527	8 166
757	593	805	1 074	1 177	1 129	688	623	446	672
32 857	31 502	29 069	28 640	28 964	28 222	26 453	25 773	24 150	23 177
9 407	6 378	2 834	3 623	6 315	1 816	870	1 310	3 907	1 706
42 264	37 880	31 903	32 263	35 279	30 038	27 323	27 083	28 057	24 883
11.6	18.7	(1.1)	(8.5)	17.4	9.9	0.9	(3.5)	12.8	20.6
$ 517	$ 509	$ 448	$ 410	$ 348	$312	$267	$255	$217	$180
498	469	425	389	328	301	261	246	205	169
322	307	239	228	161	153	120	105	85	72
37	28	31	34	30	29	19	18	14	12
18	18	12	14	24	24	15	14	12	11
1,392	1,331	1,155	1,175	891	819	682	638	533	444
252	182	75	97	233	63	35	33	78	23
$1,644	$1,513	$1,230	$1,172	$1,124	$882	$717	$671	$611	$467
5.4	5.3	4.9	4.7	4.0	3.8	3.5	3.4	3.1	2.7
4.6	4.6	4.3	4.0	3.4	3.2	2.9	2.9	2.5	2.2
2.8	2.8	2.6	2.5	1.7	1.6	1.3	1.1	1.0	0.9
4.9	4.8	3.8	3.1	2.6	2.6	2.8	2.9	3.1	1.8
2.7	2.9	2.7	2.7	3.7	3.5	4.1	2.5	2.0	1.3
9 427	9 678	9 267	9 214	9 413	9 001	8 736	8 747	8 620	8 452
46 533†	45 795†	44 737†	42 231	40 789	39 472	38 279	37 125	36 129	35 093
17 197	16 996	16 701	16 543	16 098	15 335	15 258	14 793	14 259	14 082
393	393	393	428	424	402	393	437	437	437
164	164	164	164	164	164	164	164	164	164
66	66	56	—	—	—	—	—	—	—
6	6	6	6	6	6	6	6	6	6
656	593	610	493	586	493	507	510	404	377
655	526	609	419	564	488	436	508	402	365
2	2	2	1	2	2	2	2	2	2
334 329	323 750	312 444	304 326	294 838	282 894	263 036	252 032	245 638	238 290
39 632	38 402	37 859	37 443	36 476	35 374	34 537	33 684	32 596	31 365
104	103	103	99	95	98	103	103	101	112
374 065	362 255	350 406	341 868	331 409	318 366	297 676	285 819	278 335	269 767
40 100	41 044	36 091	33 646	37 694	31 806	31 962	32 450	31 215	30 552
36 729	36 534	33 118	32 367	36 069	32 057	32 085	34 001	30 568	28 119
21 418	22 057	20 316	19 956	22 484	21 758	24 027	21 282	21 490	21 335
98 247	99 635	89 525	85 969	96 247	85 621	88 074	87 733	83 273	80 006
(1.4)	11.3	4.1	(10.7)	12.4	(2.8)	0.4	5.4	4.1	(0.7)
$191	$187	$162	$145	$139	$ 81	$ 75	$ 74	$ 66	$ 52
161	154	135	126	118	70	64	66	46	35
69	72	63	60	56	33	33	29	23	16
2	2	1	1	3	1	1	1	1	1
$423	$415	$361	$332	$316	$185	$173	$170	$136	$104
4.29	4.14	4.02	3.85	3.25	2.14	1.95	1.93	1.62	1.30
1 977	1 837	2 005	1 784	2 383	2 458	2 603	2 536	2 397	2 393

** Excludes electricity available from other systems. Rated capacity has been exceeded on occasion.*
*** Includes Irrigation, Street Lighting and deliveries to Seattle under the Skagit River agreements.*
† Includes B.C. Hydro lines on private property.
+ Mainland capacities based on 38.57 MJ/m³ heating value.

British Columbia Hydro and Power Authority

Financial Statistics *(in millions)*

years ended March 31

	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977
Sources of Revenue											
Electric	$ 1,578	$ 1,644	$ 1,513	$1,230	$1,172	$1,124	$ 882	$ 717	$ 671	$ 611	$ 467
Gas	385	423	415	361	332	316	185	173	170	136	104
Rail	23	24	25	22	22	27	25	23	21	18	16
Sundry	1	3	—	—	2	6	5	3	1	1	1
Provincial Government special subsidy	—	—	—	—	—	—	—	—	—	—	33
Total	$ 1,987	$ 2,094	$ 1,953	$1,613	$1,528	$1,473	$1,097	$ 916	$ 863	$ 766	$ 621
Disposition of Revenue											
Employee compensation	$ 208	$ 226	$ 259	$ 214	$ 212	$ 197	$ 166	$ 144	$ 132	$ 126	$ 115
Materials and services	70	67	66	64	65	72	50	45	44	44	43
Energy	280	328	323	276	262	250	142	131	121	95	65
Taxes	330	321	299	262	254	183	90	71	66	53	45
Depreciation and amortization	233	213	229	240	179	153	136	119	107	97	78
Finance charges	906	926	784	520	479	498	400	310	283	262	187
Total	2,027	2,081	1,960	1,576	1,451	1,263	984	820	753	677	533
Adjustment for rate stabilization	(107)	4	8	(14)	19	90	—	—	—	—	—
	1,920	2,085	1,968	1,562	1,470	1,353	984	820	753	677	533
Loss on passenger transportation operations	—	—	—	—	—	—	—	56	61	61	50
	1,920	2,085	1,968	1,562	1,470	1,353	984	876	814	738	583
Loss on discontinuance of passenger transportation operations	—	—	—	—	—	—	—	38	—	—	—
Loss on deferral of Hat Creek project	—	—	—	—	77	—	—	—	—	—	—
Loss on write-off of Vancouver Island gas pipeline and write-down of property	42	—	—	—	—	—	—	—	—	—	—
Employed in the business	25	9	(15)	51	(19)	120	113	2	49	28	38
Total	$ 1,987	$ 2,094	$ 1,953	$1,613	$1,528	$1,473	$1,097	$ 916	$ 863	$ 766	$ 621
Fixed Assets											
In service, at cost	$11,001	$10,749	$10,231	$8,046	$7,566	$7,192	$6,691	$5,991	$5,339	$4,921	$4,541
Accumulated depreciation	2,259	2,037	1,824	1,660	1,499	1,345	1,199	1,063	980	878	784
	$ 8,742	$ 8,712	$ 8,407	$6,386	$6,067	$5,847	$5,492	$4,928	$4,359	$4,043	$3,757
Fixed asset expenditures	$ 187	$ 224	$ 484	$ 820	$1,037	$1,053	$ 740	$ 755	$ 722	$ 641	$ 548
Contributions in aid of construction	29	33	31	30	65	37	32	25	19	22	22
Net fixed asset expenditures	$ 158	$ 191	$ 453	$ 790	$ 972	$1,016	$ 708	$ 730	$ 703	$ 619	$ 526
Long-Term Debt	$ 7,472	$ 8,209	$ 8,387	$7,203	$6,833	$6,425	$5,324	$5,176	$4,739	$4,337	$3,605
Employees at year-end*											
Regular	5 998	6 172	6 764	7 739	8 212	8 610	8 441	11 330	11 618	11 611	11 339
Temporary	395	336	385	466	455	1 123	1 099	865	932	946	1 001
Total	6 393	6 508	7 149	8 205	8 667	9 733	9 540	12 195	12 550	12 557	12 340

** 1977 to 1980 includes passenger transportation employees*

Corporate Organization and Information

as at March 31, 1987

DIRECTORS:*
L.I. (Larry) Bell**
Samuel Belzberg
The Honourable Jack Davis[1]
Carol M. Gran, M.L.A.
Chester A. Johnson***
Newell R. Morrison
Charles E. Osterloh[2]
J. Guy Rose[2]
William L. Sauder
Sandra D. Sutherland, Q.C.[2]
John S. Waldie[2]
L. Allan Williams, Q.C.

[1] *Minister responsible*
[2] *Member of the Audit Committee*

EXECUTIVE COMMITTEE OF THE BOARD:
The Honourable Jack Davis
Chester A. Johnson, *Chairman****
Newell R. Morrison
William L. Sauder
L. Allan Williams, Q.C.

EXECUTIVE MANAGEMENT COMMITTEE:
Chester A. Johnson, *Chairman****
L. Allan Williams, Q.C.

OFFICERS:
Chester A. Johnson, *Chairman and Chief Executive Officer****
L.I. (Larry) Bell, *Chairman***
Gerald A.B. McGavin, *President and Chief Operating Officer*
Ronald D. Strilive, *Secretary*
Donna J. Lloyd, *Associate Secretary*
Edwin T. Quirk, *Chief Engineer*

GROUP ORGANIZATION:

OFFICE OF THE CHAIRMAN
Gerald A.B. McGavin, *President and Chief Operating Officer*
Edwin T. Quirk, *Chief Engineer*

OFFICE OF THE CHIEF ENGINEER
Harry M. Ellis, *Director, Research and Development*
Les Webster, *Director, Dam Safety*

OFFICE OF THE PRESIDENT

Administration and Personnel
Thomas A. Nordstrom, *Vice-President*
Division Managers:
B.A. (Tony) Angel, *General Services*
Kenneth R. Flannagan, *Corporate Personnel Services*
Jeffrey N. Holmes, *Properties*
Christopher J. Hopkins, *Purchasing and Supply*

Electrical Operations
P. Donald Swoboda, *Vice-President*
Division Managers:
Ted M. Berger, *South Interior*
John R. Carmichael, *Northern*
Ted Davis, *Vancouver Island*
Kenneth Epp, *Systems Operations and Maintenance*
A. Wayne Morgan, *Lower Mainland*
Donald E. Waddell, *Operations Administration*

Engineering
Raymond H. Hunt, *Vice-President*
Division Managers:
Ian C. Dirom, *Hydroelectric Engineering*
Ronald G. Foxall, *Transmission Engineering*
Charles K. Harman, *Engineering Projects*
Glen S. Smyrl,**** *Hydro Force Construction*
Michael G. Wellings,**** *Stations Engineering*

Finance
John P. Sheehan, *Vice-President*
Ronald E. Avery, *Treasurer*
William W. Winnett, *Comptroller*

Gas Operations
Maurice A. Favell, *Vice-President*
Division Managers:
William G. Bierlmeier, *Gas Supply and Marketing*
O. Bruce Newton, *Gas Distribution*
Carl Shalansky, *Gas Engineering*

Information Systems
David A. Harrison, *Director*
Division Manager:
Robert J. Steele, *Computer and Management Systems*

Legal
Ronald D. Strilive, *Vice-President and General Counsel*

Marketing and System Planning
William A. Best, *Vice-President*
Division Manager:
Donald G. McFarlane, *System Engineering*

Railway Operations
Gerald I. Stevenson, *Vice-President*

Corporate Information

Head Office
970 Burrard Street
Vancouver, British Columbia
Canada, V6Z 1Y3

Auditors
Deloitte Haskins + Sells

Bankers
The Royal Bank of Canada
(Principal Banker)
Canadian Imperial Bank of Commerce
Bank of British Columbia
Bank of Montreal
The Bank of Nova Scotia
The Toronto-Dominion Bank

Registrars and Transfer Agents
Securities issued by B.C. Hydro:

Canadian issues:
Montreal Trust Company of Canada

United States issues:
Canadian Imperial Bank of Commerce (New York)

Securities issued by the former British Columbia Electric Company Limited:
Montreal Trust Company

Securities issued by the former British Columbia Power Commission:
Montreal Trust Company of Canada

* *The Honourable Anthony J. Brummet and the Honourable Hugh A. Curtis completed their terms of office on August 14, 1986 and November 19, 1986 respectively.*
The Honourable Jack Davis and Carol M. Gran were appointed to the Board of Directors on August 14, 1986 and November 19, 1986 respectively.

** *Appointed February 26, 1987. Will assume his duties effective June 1, 1987.*

*** *Retired May 31, 1987.*

**** *Appointed April 1, 1987.*

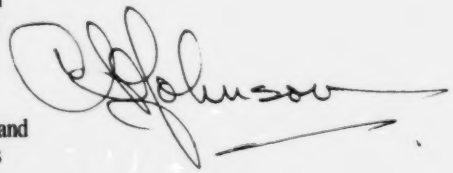
Financial Statements

Management Report

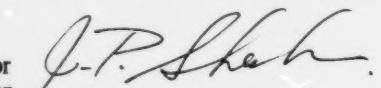
The financial statements of B.C. Hydro have been prepared by management in accordance with accounting principles generally accepted in Canada, consistently applied and appropriate in the circumstances, after giving retroactive effect to the change in accounting for unrealized foreign exchange gains and losses on sinking funds. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations which have been made using careful judgement. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized in the notes to the financial statements. Financial information presented elsewhere in this Annual Report is consistent with that in the financial statements.

Management depends upon a system of internal controls in order to provide reasonable assurance, on a cost-effective basis, that financial information is reliable and accurate. This system includes formal written policies and procedures, the careful selection and training of qualified personnel, and an organizational structure that provides for the appropriate delegation of authority and segregation of responsibilities. This system is monitored through the performance of a comprehensive internal audit program. Our external auditors also independently perform such tests of the system of internal controls as they consider necessary for the purpose of expressing their opinion on the financial statements. The Audit Committee, which is comprised of directors who are not employees, meets regularly with representatives of the external auditors, the internal auditors and management in order to satisfy themselves that B.C. Hydro's system of internal controls is functioning correctly.

Management is responsible for all of the information in this Annual Report, which has been reviewed by the Audit Committee and approved by the Board of Directors.



Chester A. Johnson
Chairman and Chief Executive Officer



John P. Sheehan
Vice-President, Finance

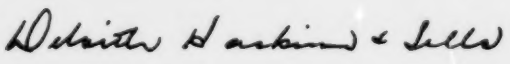
May 29, 1987

Report of the Auditors

The Lieutenant-Governor in Council,
Province of British Columbia:

We have examined the balance sheet of British Columbia Hydro and Power Authority as at March 31, 1987 and the statements of income and earnings employed in the business and of changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. The balance sheet as at March 31, 1986 and the statements of income and earnings employed in the business and of changes in financial position of British Columbia Hydro and Power Authority for the years ended March 31, 1986 and March 31, 1985 were examined by other auditors; the other auditors' report, dated May 12, 1986, expressed an unqualified opinion on these financial statements. These financial statements have been restated for the effect of the changes described in Notes 2 and 3.

In our opinion, these financial statements for the year ended March 31, 1987 present fairly the financial position of British Columbia Hydro and Power Authority as at March 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change, with which we concur, in accounting for unrealized foreign exchange gains and losses on sinking funds as explained in Note 3 to the financial statements, on a basis consistent with that of the preceding two fiscal years.



Chartered Accountants

Vancouver, British Columbia
May 8, 1987

British Columbia Hydro and Power Authority

Statement of Income and Earnings Employed in the Business

years ended March 31

	1987	1986	1985
		(in millions)	
Revenues:			
Electric — Domestic *(Note 4)*	$1,485	$1,392	$1,331
— Export *(Notes 5 and 6)*	93	252	182
Total Electric	1,578	1,644	1,513
Gas *(Note 4)*	385	423	415
Rail	23	24	25
Sundry	1	3	—
Total Revenues	1,987	2,094	1,953
Expenses:			
Employee compensation	208	226	259
Materials and services	70	67	66
Energy	280	328	323
Taxes	330	321	299
Depreciation and amortization	233	213	229
	1,121	1,155	1,176
Operating Income Before Finance Charges	866	939	777
Finance charges *(Note 8)*	906	926	784
Operating Income (Loss)	(40)	13	(7)
Transfer to rate stabilization account *(Note 6)*	(56)	(85)	(68)
Transfer from rate stabilization account *(Note 6)*	163	81	60
Income (Loss) Before Extraordinary Items	67	9	(15)
Extraordinary items *(Note 12)*	(42)	—	—
Net Income (Loss)	25	9	(15)
Earnings Employed in the Business:			
At beginning of year, as previously reported	521	509	521
Prior period ajdustment *(Note 2)*	9	9	—
Change in accounting policy *(Note 3)*	(15)	(12)	—
As restated	515	506	521
At end of year	$ 540	$ 515	$ 506

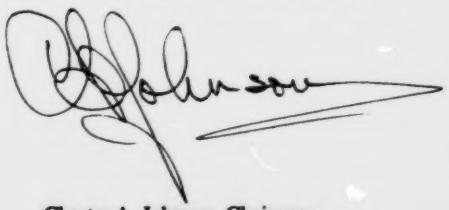
British Columbia Hydro and Power Authority

Balance Sheet

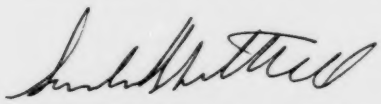
as at March 31

	1987	1986
	(in millions)	
Fixed Assets *(Note 7)*:		
Fixed assets in service	$11,001	$10,749
Less —		
Accumulated depreciation	2,259	2,037
	8,742	8,712
Unfinished construction	122	269
	8,864	8,981
Current Assets:		
Temporary investments	24	226
Accounts receivable and unbilled revenues	329	374
Materials and supplies	37	37
Prepaid expenses	49	4
	439	641
Unamortized Deferred Charges:		
Foreign currency translation	428	749
Discount and issue costs	66	78
	494	827
Other Assets	5	8
	$ 9,802	$10,457

Approved on Behalf of the Board:



Chester A. Johnson, Chairman



Sandra D. Sutherland Q.C., Director

	1987	1986
	(in millions)	
Long-term Liabilities:		
Long-term debt *(Notes 9 and 10)*	$7,472	$ 8,209
Deferred liabilities	26	34
	7,498	8,243
Current Liabilities:		
Notes payable	116	—
Accounts payable	209	295
Accrued interest	323	344
Long-term debt payments due within one year *(Note 9)*	433	281
	1,081	920
Unamortized Deferred Credits:		
Rate stabilization account *(Note 6)*	—	107
Deferred revenues	6	—
Contributions arising from Columbia River Treaty	350	359
Contributions in aid of construction	327	313
	683	779
Earnings Employed in the Business	540	515
	$9,802	$10,457

British Columbia Hydro and Power Authority

Statement of Changes in Financial Position

years ended March 31

	1987	1986	1985
		(in millions)	
Operating Activities:			
Operating income (loss)	$ (40)	$ 13	$ (7)
Depreciation and amortization	233	213	229
Amortization of deferred charges	26	69	61
Working capital	(107)	153	(120)
Other	(5)	20	(5)
Funds provided by operating activities	107	468	$158
Financing Activities:			
Issue of long-term debt	344	87	660
Issue of notes payable — net of repayments	116	—	—
Retirement of long-term debt	(357)	(87)	(276)
Sinking fund — instalments	(157)	(95)	(99)
— income reinvested	(104)	(98)	(92)
Other	(4)	(1)	(2)
Funds provided by (used for) financing activities	(162)	(194)	191
Investing Activities:			
Fixed asset expenditures	(187)	(224)	(484)
Contributions in aid of construction	27	34	27
Net proceeds from fixed asset retirements	12	9	13
Loans and mortgages	1	(5)	(5)
Funds used for investing activities	(147)	(186)	(449)
Increase (Decrease) in Funds	(202)	88	(100)
Funds at Beginning of Year	226	138	238
Funds at End of Year	$ 24	$226	$138

Funds consist of temporary investments.

Note 1 Significant Accounting Policies:

British Columbia Hydro and Power Authority ("B.C. Hydro") is a Crown corporation of the Province of British Columbia (the "Province"). B.C. Hydro's electric and gas services, including rates, are subject to regulation by the British Columbia Utilities Commission (the "Commission"). The accounting policies of the corporation conform to accounting principles generally accepted in Canada. A description of significant accounting policies follows. See Note 6 for an explanation of the rate stabilization account.

REVENUES
Domestic revenues represent sales of energy to customers within the Province and sales of firm energy to those outside the province (mainly Seattle and Point Roberts, Washington and Hyder, Alaska) with whom B.C. Hydro has long-term commitments.

Export revenues are derived from energy sales made outside the Province other than those classified as domestic. These sales are surplus to B.C. Hydro's domestic requirements.

Customers are billed on a cyclical basis for deliveries of electricity and gas. Unbilled deliveries are accrued and included in revenues.

FIXED ASSETS
Fixed assets in service consist principally of land, water rights, storage dams, plant for the generation, transmission and distribution of electricity and the distribution of gas, freight railway and rolling stock, and include the cost of plant financed by contributions in aid of construction and contributions arising from the Columbia River Treaty.

Fixed assets are carried at cost which includes material, direct labour and appropriate portions of engineering, administration and finance charges.

Capital development studies and projects which are abandoned or subject to indefinite deferral are written off. Capital development studies for which work is deferred for more than one year are amortized on a straight-line basis at 20% per annum during the deferral period or until fully amortized. Capital projects which are deferred, but for which there is a reasonable probability of proceeding, have a provision made for any reduction in the value of project costs.

DEPRECIATION
The depreciation policy of B.C. Hydro is to charge the original cost of fixed assets to income over the estimated service lives of the assets. Depreciation is provided on all depreciable assets in service as at the beginning of each year and is computed using the straight-line method.

FINANCE CHARGES CAPITALIZED
B.C. Hydro capitalizes finance charges at rates equivalent to the cost of borrowing those funds expended on construction projects during each year of construction.

TEMPORARY INVESTMENTS
Temporary investments are valued at the lower of cost and market.

MATERIALS AND SUPPLIES
Materials and supplies are valued at average cost, less provisions for declines in value.

FOREIGN CURRENCY TRANSLATION
Long-term debt, sinking funds, current assets and current liabilities denominated in a foreign currency are translated into Canadian currency at the rate of exchange prevailing at the balance sheet date. Certain U.S. currency liabilities covered by forward exchange contracts are converted at the weighted average rates of the contracts.

Unrealized gains and losses arising from the translation of long-term debt and sinking funds are deferred and amortized over the remaining term of the debt. The annual amortization is determined by dividing the unamortized balance of the gains and losses by the sum of the remaining years, except that for the last four years the unamortized balance is written off equally. Any unamortized exchange balance on negotiated early redemptions and subsequent refinancing of debt is deferred and amortized over the term of the new debt. Foreign exchange gains and losses on current assets and current liabilities are included in income.

DISCOUNT AND ISSUE COSTS
Discount and issue costs on long-term debt are amortized on a straight-line basis over the terms of the respective debt.

DEFERRED REVENUE
Deferred revenue consists primarily of amounts received in advance under the Skagit River Agreements. The amounts are deferred and amortized to income on an annuity basis over the energy delivery period ending in fiscal 2066.

CONTRIBUTIONS

Contributions in aid of construction are amortized over the estimated service lives of the related assets, and the credit resulting therefrom is offset against the corresponding provision for depreciation.

Contributions arising from the Columbia River Treaty are amortized over the period ending in fiscal 2025, the minimum term of the Treaty, and the credit resulting therefrom is offset against and is equal to the annual provision for depreciation of the related assets.

Contributions received in respect of unfinished construction are included with deferred liabilities until the assets are placed in service.

Note 2 Prior Period Adjustment:

For fiscal 1985, B.C. Hydro made a severance provision for terminated employees. Based on settlements made in the current year, the provision has been reduced by $9 million and employee compensation for fiscal 1985 reduced by the same amount.

Note 3 Change in Accounting Policy:

To be consistent with the accounting treatment for unrealized foreign exchange gains and losses arising from the translation of long-term debt (see Note 1), B.C. Hydro changed its method, effective April 1, 1986, of accounting for unrealized foreign exchange gains and losses on sinking funds from immediate recognition to deferral and amortization. The effect of this change, which has been applied retroactively, is to decrease finance charges for fiscal 1987 by $15 million and to increase finance charges for fiscal 1986 and 1985 by $3 million and $12 million respectively.

Note 4 Rate Adjustments:

ELECTRIC – DOMESTIC

In a decision dated May 9, 1986, the Commission reduced an interim electric rate increase of 3.75%, which had been in effect since June 13, 1985, to 1.875% for the period June 13, 1985 to March 31, 1986 and confirmed the full 3.75% increase effective April 1, 1986.

The Commission ordered a refund, with interest, of the portion of the interim increase not approved and a transfer equivalent to the refund amount, excluding interest, from the rate stabilization account to income in fiscal 1986 (see Note 6). Accordingly, electric revenue refunds totalling $21 million plus $1 million in interest were recorded in fiscal 1986 and refunded to customers in fiscal 1987.

GAS

Effective November 1, 1986, the Commission approved a gas rate decrease which was due to reductions in the cost of gas purchased for resale. Concurrently, a 3.6% interim gas rate increase was implemented to compensate B.C. Hydro for increases in other expenses. Revenue derived from the interim rate increase for the period November 1, 1986 to March 31, 1987 amounted to approximately $7 million and is subject to refund with interest, in whole or in part, if so ordered by the Commission. The net result was a reduction in gas rates of 4.8% for residential and general customers and 28% for interruptible customers.

Note 5 Export Sales:

	Years ended March 31		
	1987	1986	1985
		(in millions)	
Export revenues	$ 93	$252	$182
Less: Direct expenses:			
Energy purchases	—	12	—
Transmission charges	16	21	26
Water rentals	21	37	17
	37	70	43
Income before rate stabilization	56	182	139
Transfer to rate stabilization account (Note 6)	(56)	(85)	(68)
Income from export sales	$ —	$ 97	$ 71

Note 6 Rate Stabilization Account:

For fiscal years subsequent to March 31, 1982 the Commission ordered B.C. Hydro to transfer to the rate stabilization account revenues derived from export sales of surplus electric energy (exclusive of sales made under certain export contracts) less associated direct expenses. In addition, the Commission ordered B.C. Hydro to transfer from the rate stabilization account, each fiscal year, an amount of $60 million or such lesser amount as to reduce the account balance to nil.

For fiscal 1986 the Commission allowed B.C. Hydro to take into income, in addition to the $60 million, revenues from export sales to an amount of $130 million before direct expenses. Export sales in excess of $130 million less direct expenses were transferred to the rate stabilization account. The Commission also ordered B.C. Hydro to transfer to income from the rate stabilization account an amount equivalent to the refund payable to domestic customers ($21 million — see Note 4).

For fiscal 1987 and subsequent years, the Commission directed that all revenues from export sales less direct expenses be transferred to the rate stabilization account. The Commission approved for fiscal 1987 the transfer to income of $50 million plus the revenue on $175 million of export sales less direct expenses, or such lesser amount as to reduce the account balance to nil.

An analysis of the rate stabilization account is as follows:

	Years ended March 31		
	1987	1986	1985
		(in millions)	
Balance at beginning of year	$107	$103	$ 95
Transfer from income (Note 5)	56	85	68
Transfer to income	(163)	(81)	(60)
Balance at end of year	$ —	$107	$103

Note 7 Fixed Assets:

	As at March 31					
	1987					1986
	Fixed Assets in Service			Unfinished Construction*	Total	Total
	Original Cost	Accumulated Depreciation	Net Book Value			
		(in millions)				
Electric Service						
Generation and storage	$ 4,981	$ 745	$4,236	$ 92	$4,328	$4,365
Transmission	2,282	415	1,867	6	1,873	1,916
Transformation	1,263	309	954	12	966	991
Distribution	1,356	432	924	7	931	892
Buildings and other	335	157	178	1	179	208
Total Electric Service	10,217	2,058	8,159	118	8,277	8,372
Gas Service	541	114	427	1	428	442
Rail Service	50	22	28	—	28	27
Common Properties	182	65	117	3	120	129
Sundry	11	—	11	—	11	11
Total	$11,001	$2,259	$8,742	$122	$8,864	$8,981

** Unfinished construction includes $94 million (1986 — $134 million) in deferred capital projects mainly comprised of costs relating to Peace Site C and Murphy-Keenleyside.*

DEPRECIATION AND AMORTIZATION

Included in the depreciation and amortization for fiscal 1987 were write-offs of $7 million (1986 — Nil; 1985 — $50 million).

The composite depreciation rates, excluding write-offs, were as follows:

	Years ended March 31		
	1987	1986	1985
	(%)	(%)	(%)
Electric Service	2.30	2.30	2.54
Gas Service	2.63	2.43	2.38
Rail Service	3.50	3.73	3.77
Common Properties	5.85	6.09	6.18

Note 8 Finance Charges:

	Years ended March 31		
	1987	1986	1985
	(in millions)		
Interest on long-term debt	$ 988	$1,017	$ 994
Amortization of foreign exchange gains and losses (Note 3)	11	54	49
Amortization of discount and issue costs	15	15	12
Other	9	4	4
	1,023	1,090	1,059
Less: Income from sinking fund investments	104	98	92
Income from temporary investments	6	15	33
	110	113	125
	913	977	934
Less: Finance charges capitalized	7	51	150
	$ 906	$ 926	$ 784

The effective rate for finance charges capitalized to unfinished construction for fiscal 1987 was 10.6% (1986 — 12.8%; 1985 — 13.9%).

Note 9 Long-Term Debt:

	As at March 31, 1987			1986
	Cdn.	U.S.	Total	Total
		(in millions)		
Long-term debt outstanding — (U.S. $3,624; 1986 — U.S. $3,638)	$4,349	$4,732	$9,081	$9,526
Less: Sinking funds* (U.S. $342; 1986 — U.S. $117)	730	446	1,176	1,036
	3,619	4,286	7,905	8,490
Less: Long-term debt payments due within one year —				
Sinking fund instalments	52	52	104	108
Maturities, less sinking funds	80	249	329	173
	132	301	433	281
	$3,487	$3,985	$7,472	$8,209

** Sinking funds are held by the Trustee, the Minister of Finance for the Province of British Columbia.*

B.C. Hydro had 168 series of long-term debt outstanding at March 31, 1987 (1986 — 171). Coupon rates on this long-term debt range from 3¼% to 15½%. The weighted average coupon rate on long-term debt outstanding at March 31, 1987 was 9.39% (1986 — 9.20%) for Canadian denominated debt and 11.81% (1986 — 12.04%) for U.S. denominated debt.

The following long-term debt was issued by B.C. Hydro during fiscal 1987:

Coupon Rate	Series	Date of Maturity	Principal
Floating**	GU	October 28, 1996	U.S. $100 million
9.64%	GV	November 10, 2006	Cdn. $ 14 million
9.25%	GW	November 27, 1991	Cdn. $ 50 million
Floating**	GX	February 9, 1997	U.S. $ 25 million
8.50%	GY	February 26, 1997	Cdn. $ 50 million
Floating**	GZ	March 6, 1997	U.S. $ 34 million
Floating**	HA	March 31, 1997	U.S. $ 27 million

*** The effective floating rate for the year was 5.99%.*

Nearly all of the series have annual sinking fund requirements. Total long-term debt maturity payments and sinking fund instalments of the long-term debt outstanding as at March 31, 1987 were as follows:

Year Ending March 31	Principal Amount of Maturities	Estimated Sinking Funds at Maturity	Cash Requirements		
			Net Debt Maturities	Sinking Funds	Total
		(in millions)			
1988	$ 464	$ 135	$ 329	$ 104	$ 433
1989	596	84	512	106	618
1990	602	82	520	98	618
1991	164	37	127	96	223
1992	399	166	233	91	324
	2,225	504	1,721	495	2,216
1993-1997	1,888	946	942	377	1,319
1998-2002	935	898	37	301	338
2003-2014	4,033	4,166	(133)	249	116
	$9,081	$6,514	$2,567	$1,422	$3,989

Net debt maturities represent the principal amount of maturities less the estimated sinking funds at maturity. The estimated sinking funds at maturity are based on assumed average annual earnings of approximately 9% on existing sinking fund investments and future sinking fund instalments, and include estimated discounts on anticipated purchases of bonds subject to annual mandatory redemption. The translation of amounts denominated in a foreign currency is based on the rate of exchange in effect at March 31, 1987.

Certain B.C. Hydro debt held by the Canada Pension Plan Investment Fund and by the Minister of Finance of the Province of British Columbia contains provisions allowing holders to redeem the debt prior to maturity, in whole or in part, subject to certain restrictions. As at March 31, 1987 this debt amounted to $701 million (1986 — $901 million) net of sinking funds.

Note 10 Guarantee by the Province of British Columbia:

B.C. Hydro's long-term debt outstanding is either held, or guaranteed as to principal, interest and premium, if any, by the Province of British Columbia.

Note 11 Pension Plans:

Employees of B.C. Hydro are covered under contributory pension plans. It is B.C. Hydro's practice to obtain periodic actuarial valuations of the plans for purposes of determining annual pension costs and funding requirements. Current service costs are provided for and funded when incurred. Past service pension costs and accrued deficits arising from plan amendments, changes in actuarial assumptions and indexing supplements to existing pensioners are provided for and funded over periods and in amounts recommended by the actuary.

A preliminary actuarial report dated May 7, 1987 indicated accrued actuarial deficits in the principal plan as at December 31, 1986 of $8 million (1985 — $17 million). B.C. Hydro is funding deficits by annual payments of $4 million per annum to March 31, 1997 and $3 million per annum thereafter to March 31, 2000. The deficit reduction results from plan experience gains and the B.C. Hydro annual payments, offset in part by necessary changes in actuarial assumptions.

Note 12 Extraordinary Items:

As a result of continued deferment of the commencement of the Vancouver Island gas pipeline project, the aging of information, and uncertainty as to B.C. Hydro's role, the $29 million book value of the project expenditures has been charged off as an extraordinary item in the current year. In addition, because of uncertainty in the developability as a B.C. Hydro head office building of property purchased for that purpose in 1982, 1983 and 1984, the investment has been written down by $13 million to current appraised value.

Note 13 Comparative Figures:

Certain of the 1986 and 1985 comparative figures have been reclassified to conform with the current year's presentation.

Note 14 Segment Information:

B.C. Hydro is engaged in the operation of three principal services: generation, transmission and distribution of electricity; distribution of gas; and provision of a rail service.

Most expenses are directly attributable to specific services and common expenses are allocated among the services. Export expenses include only direct costs, namely energy purchases, transmission charges and water rentals.

Identifiable assets are those assets that are used in each service's operations. Corporate assets are principally temporary investments and unamortized deferred charges.

	Electric									Gas			Rail[1]			Sundry			Combined		
	Domestic			Export			Total		Electric												
Years ended March 31 *(in millions)*	**1987**	1986	1985	**1987**	1986	1985	**1987**	1986	1985	**1987**	1986	1985	**1987**	1986	1985	**1987**	1986	1985	**1987**	1986	1985
Revenues	**$1,485**	$1,392	$1,331	**$ 93**	$252	$182	**$1,578**	$1,644	$1,513	**$385**	$423	$415	**$23**	$24	$25	**$ 1**	$ 3	$—	**$1,987**	$ 2,094	$ 1,953
Expenses:																					
Employee compensation	**164**	180	209	**—**	—	—	**164**	180	209	**35**	35	38	**9**	11	12	**—**	—	—	**208**	226	259
Materials and services	**55**	56	54	**—**	—	—	**55**	56	54	**9**	9	8	**6**	2	4	**—**	—	—	**70**	67	66
Energy	**13**	15	14	**16**	33	26	**29**	48	40	**251**	280	283	**—**	—	—	**—**	—	—	**280**	328	323
Taxes	**298**	272	271	**21**	37	17	**319**	309	288	**10**	10	9	**1**	2	2	**—**	—	—	**330**	321	299
Depreciation and amortization	**214**	198	215	**—**	—	—	**214**	198	215	**17**	13	12	**2**	2	2	**—**	—	—	**233**	213	229
Total expenses	**744**	721	763	**37**	70	43	**781**	791	806	**322**	347	350	**18**	17	20	**—**	—	—	**1,121**	1,155	1,176
Operating income before finance charges	**741**	671	568	**56**	182	139	**797**	853	707	**63**	76	65	**5**	7	5	**1**	3	—	**866**	939	777
Finance charges	**853**	872	738	**—**	—	—	**853**	872	738	**49**	50	42	**3**	2	3	**1**	2	1	**906**	926	784
Operating income (loss)	**(112)**	(201)	(170)	**56**	182	139	**(56)**	(19)	(31)	**14**	26	23	**2**	5	2	**—**	1	(1)	**(40)**	13	(7)
Transfer to rate stabilization account	**—**	—	—	**(56)**	(85)	(68)	**(56)**	(85)	(68)	**—**	—	—	**—**	—	—	**—**	—	—	**(56)**	(85)	(68)
Transfer from rate stabilization account	**163**	81	60	**—**	—	—	**163**	81	60	**—**	—	—	**—**	—	—	**—**	—	—	**163**	81	60
Income (loss) before extraordinary items	**$ 51**	$ (120)	$ (110)	**$ —**	$ 97	$ 71	**$ 51**	$ (23)	$ (39)	**$ 14**	$ 26	$ 23	**$ 2**	$ 5	$ 2	**$—**	$ 1	$(1)	**$ 67**	$ 9	$ (15)
Identifiable assets							**$8,598**	$8,675	$8,792	**$496**	$530	$562	**$46**	$47	$45	**$11**	$11	$12	**$9,151**	$ 9,263	$ 9,411
Corporate assets																			651	1,194	1,156
Total assets																			**$9,802**	$10,457	$10,567
Expenditures on fixed assets							**$ 156**	$ 194	$ 442	**$ 29**	$ 28	$ 40	**$ 1**	$ 1	$ 1	**$ 1**	$ 1	$ 1	**$ 187**	$ 224	$ 484

(1) *The 1985 Rail revenues include a $5 million gain on sale of property; revenues from normal operations are $20 million and operating loss $3 million.*